

Report  
of the  
Examination of  
United Heartland Life Insurance Company  
Milwaukee, Wisconsin  
As of December 31, 1997

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March 31, 1999

Honorable Connie L. O'Connell  
Commissioner of Insurance  
State of Wisconsin  
121 East Wilson Street  
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

UNITED HEARTLAND LIFE INSURANCE COMPANY  
Milwaukee, Wisconsin

and this report is respectfully submitted.

## **I. INTRODUCTION**

The previous examination of the company was conducted by the State of Ohio Department of Insurance in 1995 as of December 31, 1994. The current examination covered the intervening period ending December 31, 1997, and included a review of such 1998 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## **II. HISTORY AND PLAN OF OPERATION**

The company was incorporated on August 23, 1990, as National Benefit Life Assurance Company under the Ohio laws applicable to life insurance companies. The company subsequently changed its name on November 20, 1990, to American Benefit Life Assurance Company. On March 1, 1993, all the outstanding stock of ABL was acquired by American Medical Security Insurance Company (AMSIC) from Benefits International, Inc. On June 28, 1993, the company changed its name to American Medical Security Insurance Company of Ohio (AMSICO).

During 1996, United Wisconsin Services, Inc. (UWSI) merged with American Medical Security Holdings, Inc., the parent of AMSIC, and thereby obtained ownership of AMSICO. Effective January 1, 1997, the company redomiciled from Ohio to Wisconsin and changed its name to the currently held name, United Heartland Life Insurance Company (UHLIC). In late 1998, the UWSI specialty products and HMO business segment was spun off to a new holding company, which took the UWSI name. The original UWSI, the holding company for the remaining small group health insurance segment, was renamed American Medical Security Group, Inc. (AMSG). UHLIC is owned by the new holding company, currently named UWSI. UHLIC's affiliates are further discussed in the section of this report captioned "Affiliated Companies."

The company is licensed in Ohio and Wisconsin. The major products written by the company include group term life, individual whole life, and group accidental death and dismemberment. All of the company's premiums are assumed from an affiliate, United Wisconsin Life Insurance Company.

The following chart is a summary of the net insurance premiums written by the company in 1997. The growth of the company is discussed in the Financial Data section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Whole life	\$0	\$ 76,713	\$ 32,274	\$ 44,439
Group term life and AD&D	<u>0</u>	<u>26,068,010</u>	<u>2,497,733</u>	<u>23,570,277</u>
Total All Lines	<u>\$0</u>	<u>\$26,144,723</u>	<u>\$2,530,007</u>	<u>\$23,614,716</u>

### **III. MANAGEMENT AND CONTROL**

#### **Board of Directors**

The board of directors consists of six members. Each director shall hold office until the next annual meeting of shareholders for the remainder of the term for which the director has been elected and until the director's successor shall have been elected or there is a decrease in the number of directors, or until the director's prior death, resignation, or removal. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

As of March 31, 1999, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>
Thomas R. Hefty Elm Grove, Wisconsin	Chairman and CEO United Wisconsin Services Inc.
Mark H. Granoff Nashotah, Wisconsin	Vice President United Wisconsin Services Inc.
Stephen E. Bablitch Madison, Wisconsin	Vice President, General Counsel and Secretary United Wisconsin Services Inc.
C. Edward Mordy Mequon, Wisconsin	Vice President and CFO United Wisconsin Services Inc.
Gail L. Hanson Delafield, Wisconsin	Vice President and Treasurer United Wisconsin Services Inc.

## Officers of the Company

The officers appointed by the board of directors and serving at March 31, 1999, are as follows:

Name	Office	Compensation*
Thomas R. Hefty	Chairman and CEO	\$670,162
Mark H. Granoff	President and COO	215,402
Stephen E. Bablitch	Vice President and Secretary	206,553
Gail L. Hanson	Vice President and Treasurer	155,103
C. Edward Mordy	Vice President	244,038

\* Compensation is paid by United Wisconsin Services, Inc., and includes amounts allocated to all affiliates. UHLIC does not pay any salaries directly. The company has an administrative services contract with United Wisconsin Insurance Company.

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Individuals serving as committee members for United Wisconsin Services, Inc., also serve in that capacity for UHLIC. The committees at the time of the examination are listed below:

### Executive Committee

James L. Forbes, Chair  
Richard A. Abdoo  
Thomas R. Hefty  
James C. Hickman

### Audit Committee

Eugene A. Menden, Chair  
Richard A. Abdoo  
Michael D. Dunham  
James C. Hickman

### Finance Committee

William R. Johnson, Chair  
Thomas R. Hefty  
William C. Rupp  
Carol N. Skornicka

### Management Review Committee

James L. Forbes, Chair  
Richard A. Abdoo  
Michael D. Dunham  
James C. Hickman



#### **IV. AFFILIATED COMPANIES**

UHLIC is a member of a holding company system. Its ultimate parent is Blue Cross & Blue Shield United of Wisconsin. An organizational chart reflecting the holding company structure as of October 1998 follows these descriptions of the significant affiliates of UHLIC.

##### **Blue Cross & Blue Shield United of Wisconsin**

Blue Cross & Blue Shield United of Wisconsin (BCBSUW) is a nonstock, service insurance corporation, incorporated in 1939, and organized pursuant to ch. 613, Wis. Stat. BCBSUW has established, maintained, and operated service plans to provide and pay indemnity for hospital services, sickness care, and other health care services. As of December 31, 1998, the company's audited statutory financial statements reported assets of \$346 million, liabilities of \$147 million, and unassigned funds of \$199 million. Operations for 1998 produced a net income of \$1.8 million.

##### **United Wisconsin Services, Inc.**

United Wisconsin Services, Inc. (UWSI), operates as an insurance holding company for the specialty products and HMO business segments of the group. UWSI was incorporated in 1998 and organized pursuant to ch. 180, Wis. Stat. BCBSUW owned 37.75% of the outstanding UWSI stock at December 31, 1998. The December 31, 1998, audited financial statements for UWSI reported assets of \$298 million, liabilities of \$234 million, and shareholders' equity of \$64 million. Operations for 1998 produced net income of \$18 million on revenues of \$658 million. UWSI is publicly traded over the New York Stock Exchange under the symbol UWZ.

##### **Compcare Health Services Insurance Corporation**

Compcare Health Services Insurance Corporation (Compcare) is a for-profit network model health maintenance organization (HMO) insurer, incorporated January 1, 1984, under the provisions of ch. 611, Wis. Stat. As of December 31, 1998, the company's statutory financial statements reported assets of \$97 million, liabilities of \$61 million, and net worth of \$36 million. Operations for 1998 produced a net income of \$7 million on total revenues of \$310 million.

### **Unity Health Plans Insurance Corporation**

Unity Health Plans Insurance Corporation is a Wisconsin stock insurance corporation incorporated on October 1, 1983, and organized pursuant to ch. 611, Wis. Stat. It operates as a health maintenance organization in the state of Wisconsin. As of December 31, 1998, the company's audited statutory financial statements reported assets of \$29 million, liabilities of \$15 million, and shareholders' equity of \$14 million. Operations for 1998 produced a net income of \$1.3 million on total revenues of \$137 million.

### **United Wisconsin Insurance Company**

United Wisconsin Insurance Company (UWIC) is a Wisconsin stock insurance corporation, incorporated in 1957, and organized pursuant to ch. 611, Wis. Stat. UWIC, a wholly owned subsidiary of UWSI, has established, maintained, and operated accident, sickness, long-term disability, and other health care insurance plans. As of December 31, 1998, the company's statutory annual statement reported assets of \$71 million, liabilities of \$29 million, and capital and surplus of \$42 million. Operations for 1998 produced net income of \$6 million.

### **Valley Health Plan, Inc.**

Valley Health Plan, Inc., is a Wisconsin stock insurance corporation incorporated on June 1, 1988, and organized pursuant to ch. 611, Wis. Stat. It operates as a health maintenance organization in the state of Wisconsin. As of December 31, 1998, the company's audited statutory financial statements reported assets of \$15 million, liabilities of \$8 million, and shareholders' equity of \$7 million. Operations for 1998 produced a net income of \$911 thousand on total revenues of \$70 million.

### **American Medical Security Group, Inc.**

American Medical Security Group, Inc. (AMSG), operates as an insurance holding company for the individual and small employer group health care benefits segments of the group. AMSG was incorporated in 1983 and organized pursuant to ch. 180, Wis. Stat. BCBSUW owned 38.1% of the outstanding AMSG stock at December 31, 1998. The December 31, 1998, audited consolidated financial statements for AMSG reported assets of \$498 million, liabilities of \$232 million, and shareholders' equity of \$266 million. Operations for 1998 produced net income of \$7 million on revenues of \$961 million which includes income from discontinued operations of \$10 million. AMSG is publicly traded over the New York Stock Exchange under the symbol AMZ.

**American Medical Security Holdings, Inc.**

American Medical Security Holdings, Inc. (AMSH) is a general business corporation, organized pursuant to ch. 180, Wis. Stat. It operates as a holding company for American Medical Security-related entities. At December 31, 1998, the company was 100% owned by UWSI, now known as AMSG. As of December 31, 1998, the company's unaudited financial statement reported assets of \$343 million, liabilities of \$43 million, and equity of \$300 million. Operations for 1998 produced net income of \$542 thousand on total revenues of \$15 million.

**United Wisconsin Life Insurance Company**

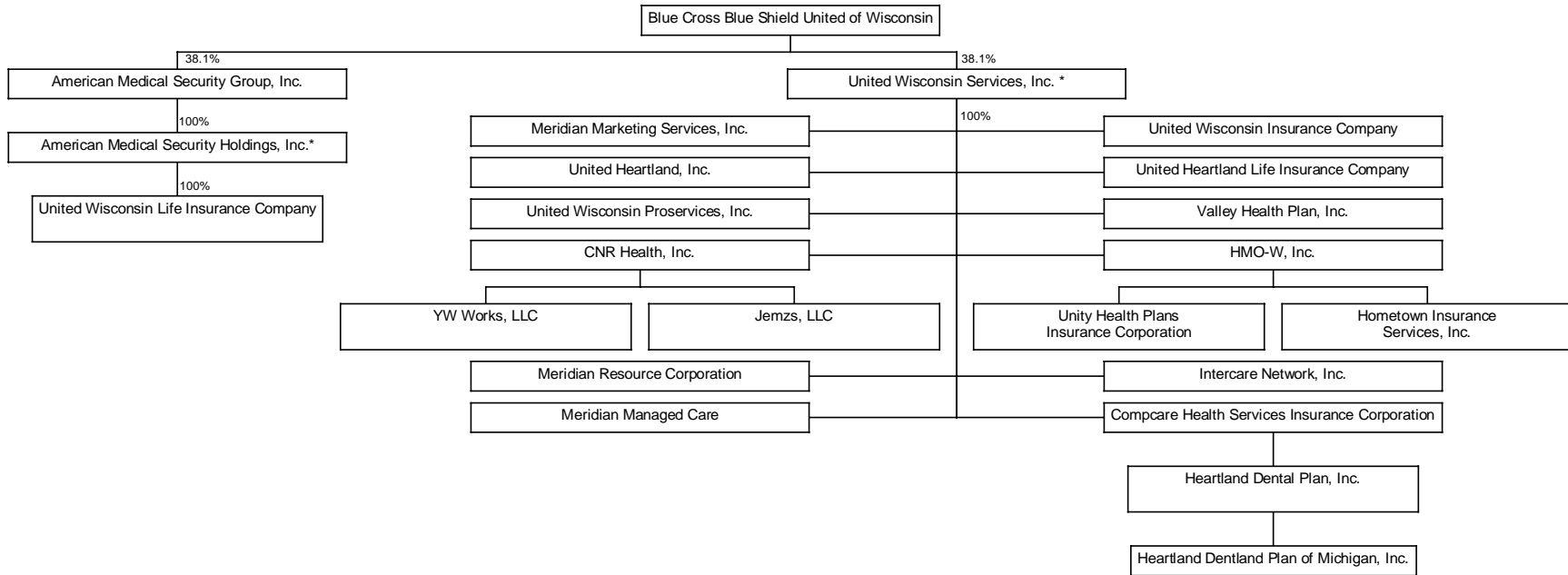
United Wisconsin Life Insurance Company (UWLIC), is a Wisconsin stock insurance corporation incorporated in 1982 and organized pursuant to ch. 611, Wis. Stat. UWLIC is a wholly owned subsidiary of UWSI and provides life and health insurance and related coverages. As of December 31, 1998, the company's audited financial statements reported assets of \$351 million, liabilities of \$168 million, and capital and surplus of \$183 million. Operations for 1998 produced a net income of \$23 million.

**Affiliated Agreements**

UWIC provides the majority of administrative and management services necessary for UHLIC. Such services are provided under an administrative services agreement, the most recent of which was executed on January 1, 1997. Duties of UWIC specified in the agreement include marketing, underwriting, policy services, claims supervision, and payment. For its services, the agreement calls for UWIC to receive an administrative fee based upon actual costs and volumes.

The company also has reinsurance agreements in place with UWLIC, as are further outlined in the "Reinsurance" section of this report.

## Organizational Chart (as of 10/98)



\* - The subsidiaries of AMSI, except for United Wisconsin Life Insurance Company, have been omitted from this chart.

## **V. REINSURANCE**

The company's reinsurance portfolio and strategy is described below. The company has one assuming and two ceding contracts in force at the time of the examination. The contracts contained proper insolvency provisions.

All of the company's business is assumed from an affiliate, United Wisconsin Life Insurance Company. Group life insurance policies, group accident insurance policies, and whole life policies are assumed on a 100% quota share basis.

To limit its exposure for any one risk, the company entered into an excess of loss reinsurance agreement with Phoenix Home Life Insurance Company. UHLIC retains \$75,000 of each risk and receives coverage for losses between \$75,000 and \$300,000. A catastrophe excess of loss reinsurance agreement with Reliastar Life Insurance Company is intended to limit UHLIC's exposure from a multiple death event. UHLIC retains \$300,000 from each and every catastrophic accident and may receive up to a maximum reimbursement of \$10,000,000.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 1997, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, comment on any exceptional NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Surplus per Examination."

**United Heartland Life Insurance Company**  
**Assets**  
**As of December 31, 1997**

	<b>Ledger Assets</b>	<b>Nonledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Admitted Assets</b>
Bonds	\$14,140,787	\$0	\$	\$14,140,787
Cash	(658,784)			(658,784)
Short-term investments	1,939,733			1,939,733
Reinsurance ceded:				
Amounts recoverable from reinsurers	194,699			194,699
Experience rating and other refunds due	670,085			670,085
Life premiums and annuity considerations deferred and uncollected	435,458		803	434,655
Investment income due and accrued	254,907			254,907
Receivable from parent, subsidiaries and affiliates	<u>7,286</u>	<u>—</u>	<u>—</u>	<u>7,286</u>
Total Assets	<u>\$16,984,171</u>	<u>\$0</u>	<u>\$803</u>	<u>\$16,983,368</u>

**United Heartland Life Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 1997**

Aggregate reserve for life policies and contracts	\$ 3,243,282
Supplementary contracts without life contingencies	5,351
Policy and contract claims:	
Life	1,206,900
Premiums and annuity considerations received in advance	173,576
Policy and contract liabilities not included elsewhere:	
Provision for experience rating refunds	5,020,853
Interest maintenance reserve	59,116
General expenses due or accrued	31,533
Federal income taxes due or accrued	98,832
Miscellaneous liabilities:	
Asset valuation reserve	40,924
Payable to parent, subsidiaries, and affiliates	<u>179,031</u>
Total Liabilities	10,059,398
Common capital stock	2,500,000
Gross paid-in and contributed surplus	6,000,000
Unassigned funds (surplus)	<u>(1,576,030)</u>
Surplus	<u>6,923,970</u>
Total Liabilities, Surplus, and Other Funds	<u>\$16,983,368</u>

**United Heartland Life Insurance Company**  
**Summary of Operations**  
**For the Year 1997**

Premiums and annuity considerations	\$23,614,717
Net investment income	936,947
Amortization of interest maintenance reserve	942
Write-in for miscellaneous income:	
Interest on funds held by third party administrator	<u>121,994</u>
Total income items	<u>24,674,600</u>
Death benefits	15,023,245
Surrender benefits and other funds withdrawals	2,898
Interest on policy or contract funds	154,661
Increase in aggregate reserve for life and accident and health policies and contracts	3,243,282
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	<u>5,351</u>
Subtotal	18,429,437
Commissions and expense allowances on reinsurance assumed	755,341
General insurance expenses	3,579,602
Insurance taxes, licenses, and fees excluding federal income taxes	348,949
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	<u>(9,609)</u>
Total deductions	<u>23,103,720</u>
Net gain from operations before dividends to policyholders and federal income taxes	1,570,880
Dividends to policyholders	<u>15,296</u>
Net gain from operations after dividends to policyholders and before federal income taxes	1,555,584
Federal income taxes incurred (excluding tax on capital gains)	<u>670,414</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	885,170
Net realized capital gains or (losses) less capital gains tax and amount transferred to the IMR	<u>(34,896)</u>
Net Income	<u>\$ 850,274</u>



**United Heartland Life Insurance Company**  
**Cash Flow**  
**As of December 31, 1997**

Premiums and annuity considerations	\$23,353,639	
Net investment income	<u>780,894</u>	
Total		\$24,134,533
Death benefits	14,011,044	
Surrender benefits and other fund withdrawals	2,898	
Interest on policy or contract funds	<u>154,661</u>	
Subtotal	14,168,603	
Commissions and expense allowances on reinsurance assumed	755,341	
General insurance expenses	3,548,069	
Insurance taxes, licenses and fees, excluding federal income taxes	348,949	
Dividends paid to policyholders	15,296	
Federal income taxes (excluding tax on capital gains)	<u>622,902</u>	
Total deductions		<u>19,459,160</u>
Net cash from operations		\$ 4,675,373
Proceeds from investments sold, matured, or repaid:		
Bonds	13,980,351	
Stocks	<u>30,676,959</u>	
Total investment proceeds		44,657,310
Net tax on capital gains		<u>13,549</u>
Subtotal		44,643,761
Cost of investments acquired (long-term only):		
Bonds	24,598,535	
Stocks	<u>30,730,644</u>	
Total investments acquired		<u>55,329,179</u>
Net cash from investments		(10,685,418)
Cash provided from financing and miscellaneous sources:		
Surplus notes	2,500,000	
Other sources	<u>5,428,209</u>	
Total		7,928,209
Cash applied for financing and miscellaneous uses:		
Other applications	<u>787,630</u>	
Total		<u>787,630</u>
Net cash from financing and miscellaneous sources		<u>7,140,579</u>
Net change in cash and short-term investments		1,130,534
<b>Reconciliation</b>		
Cash and short-term investments, December 31, 1996		<u>150,418</u>
Cash and short-term investments, December 31, 1997		<u>\$ 1,280,952</u>

**United Heartland Life Insurance Company**  
**Compulsory and Security Surplus Calculation**  
**December 31, 1997**

Assets		\$16,983,368	
Less liabilities		<u>10,059,398</u>	
Adjusted surplus			\$6,923,970
Annual premium:			
Individual life and health	\$ 40,008		
Factor	<u>15%</u>		
Total		6,001	
Group life and health	23,298,335		
Factor	<u>10%</u>		
		<u>2,329,834</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>2,335,835</u>
Compulsory surplus excess or (deficit)			<u>\$4,588,135</u>
Adjusted surplus			6,923,970
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>3,270,169</u>
Security surplus excess or (deficit)			<u>\$3,653,801</u>

**United Heartland Life Insurance Company**  
**Reconciliation and Analysis of Surplus**  
**For the Three-Year Period Ending December 31, 1997**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1995	1996	1997
Surplus, beginning of year	\$3,366,257	\$3,489,407	\$3,615,423
Net income	123,150	126,016	850,274
Change in nonadmitted assets and related items			(804)
Change in asset valuation reserve			(40,924)
Capital Changes			
Paid in			1,500,000
Surplus adjustments			
Paid in			<u>1,000,000</u>
Surplus, end of year	<u>\$3,489,407</u>	<u>\$3,615,423</u>	<u>\$6,923,969</u>

**United Heartland Life Insurance Company  
Insurance Regulatory Information System  
For the Three-Year Period Ending December 31, 1997**

The following IRIS ratio exceptions were reported during the examination period:

Ratio 1A – Gross Change in Capital and Surplus (NAIC exceptional results <-10)

1997: 92.0

Ratio 4 – Adequacy of Investment Income (NAIC exceptional results >900 or <125)

1997:	999.0	1996:	999	1995:	N/A
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Ratio 9 – Change in Premium (NAIC exceptional results >50 and <-10)

1997: 999.0

Ratio 10 – Change in Product (NAIC exceptional results >5)

1997:	NR	1996:	NR	1995:	NR
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Ratio 12 – Change in Reserves (NAIC exceptional results >20 or <-20)

1997: 792.0

The company shows an unusual result for ratio 1A in 1997 due to a \$2.5 million capital and surplus contribution from its parent. The exceptional results for ratios 4 and 10 in 1995 and 1996 are the result of the company being inactive during those years. The unusual results for ratios 4, 9, 10, and 12 in 1997 are the result of the company changing from an inactive company to an active one. Effective January 1, 1997, UHLIC started assuming premium from an affiliate, United Wisconsin Life Insurance Company.

### Growth of United Heartland Life Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
1995	\$ 3,507,578	\$ 15,171	\$3,489,407
1996	3,680,292	64,869	3,615,423
1997	16,983,368	10,059,398	6,923,970

### Life Insurance In Force (in thousands)

Year	Gross Direct and Assumed	Ceded	Net
1995	\$ 0	\$ 0	\$ 0
1996	0	0	0
1997	9,130,121	1,124,895	8,005,226

The company was inactive in 1995 and 1996. Effective January 1, 1997, UHLIC assumed, on a 100% quota share basis, a block of life insurance policies from an affiliate, United Wisconsin Life Insurance Company. In addition, UHLIC received a \$2.5 million capital and surplus contribution from its parent in 1997.

### Reconciliation of Surplus per Examination

The examination made no changes to capital and surplus as reported by the company's 1997 annual statement. The following schedule contains classification differences between that reported by the company and as determined by this examination:

#### Examination Reclassifications

	Debit	Credit
Payable to Parent, Subsidiaries, and Affiliates	\$121,161	
Commissions and Expense Allowances		
Payable on Reinsurance Assumed		\$ 68,325
Taxes, Licenses and Fees Due or Accrued		<u>52,836</u>
Total Reclassifications	<u>\$121,161</u>	<u>\$121,161</u>

## VII. SUMMARY OF EXAMINATION RESULTS

### Summary of Current Examination Results

#### General Interrogatories

General Interrogatory 9 asks basic information concerning the capital stock of the company. After United Wisconsin Services, Inc. (UWSI), acquired the company's parent in 1996, the articles and bylaws were amended. Several items were changed including the name of the company to UHLIC and UHLIC's capital structure. In addition, UWSI purchased an additional 1,500 shares of UHLIC's common stock in 1997 to increase the company's capital and surplus. As shown below, the change in the company's bylaws and the additional issuance of common stock were not properly reported in General Interrogatory 9.

	Number of Shares Authorized	Number of Shares Outstanding	Par Value Per Share
Reported	1,000	1,000	\$1,000
Per Exam	4,000,000	2,500	0

It is recommended that the company properly complete General Interrogatory 9 on all future annual statements to properly report the company's capitalization structure.

#### Investments

The company participates in a securities lending program, administered by its trust company. Review of the company's annual statement indicated that the affected securities were not labeled with an "LS" on Schedule D, as required by NAIC *Annual Statement Instructions—Life, Accident & Health*. It is recommended that the company designate loaned securities with an "LS" per the annual statement instructions. In addition, the company was unable to provide verification of transactions that occurred during 1997 regarding its securities lending program because the administering company had overwritten the relevant records. It is recommended that the company take steps to ensure that proper records are maintained concerning its securities lending transactions, pursuant to the requirements of s. Ins 6.80, Wis. Adm. Code.

#### Schedule Y – Part 2

The NAIC *Annual Statement Instructions—Life, Accident & Health* for annual statement Schedule Y – Part 2 "Summary of Insurer's Transactions with Any Affiliates" require that:

"All insurer members of the holding company system shall prepare a common schedule for inclusion in each of the individual annual statements."

In reviewing UHLIC's Schedule Y and those of the relevant affiliated insurance companies, it was noted that all affiliates did not utilize a common Schedule Y, and that the dollar amounts for intercompany transactions did not always agree among the various annual statements.

The company is required to include transactions between insurers and non-insurers within the holding company system. All shareholder dividends, capital contributions, reinsurance recoverable/(payable), and transactions involving 1/2 of 1% or more of the largest affiliated company's admitted assets as of December 31 of the reporting year should be included.

Transactions between non-insurers that do not involve an affiliated insurer should be excluded.

The following are some transactions that were not reported in Schedule Y – Part 2:

1. The \$2.5 million capital and surplus contribution to UHLIC from United Wisconsin Services, Inc.;
2. The \$70 million loan to UWSI from BCBSUW;
3. The \$2.6 million dividend paid by Compcare Health Services Insurance Corporation to UWSI; and
4. The \$2.9 million administrative fees paid by UWIC to United Heartland, Inc.

It is recommended that the company complete a common Schedule Y - Part 2 for inclusion in each of the affiliated insurers' annual statements as required by the NAIC Annual Statement Instructions. It is also recommended that the company report in Schedule Y – Part 2 all transactions required to be reported by the NAIC *Annual Statement Instructions*.

### **Affiliated Balances**

The company assumes all of its business from an affiliate, United Wisconsin Life Insurance Company. UHLIC assumes the business on a 100% quota share basis and accepts the ultimate responsibility of paying the agents' commissions and premium taxes. These liabilities were included in Payable to Parent, Subsidiaries, and Affiliates. As of December 31, 1997, the company owed its affiliates \$68,325 for agent commissions and \$52,836 for premium taxes.

The liability for commissions due on reinsurance assumed should be reported as Commissions and Expense Allowances Payable on Reinsurance Assumed, in accordance with the NAIC *Annual Statement Instructions—Life, Accident and Health*. The balance of \$68,325 is being reclassified from Payable to Parent, Subsidiaries, and Affiliates to Commissions and Expense Allowances Payable on Reinsurance Assumed. It is recommended that the company report the liability for commissions due on reinsurance assumed as Commissions and Expense Allowances Payable on Reinsurance Assumed.

For the annual statement to be consistent with companies that write their own business, the liability for premium taxes should be reported as Taxes, Licenses, and Fees Due or Accrued. The balance of \$52,836 was reclassified by the examination from Payable to Parent, Subsidiaries, and Affiliates to Taxes, Licenses, and Fees Due or Accrued. It is recommended that the company report the liability for premium taxes as Taxes, Licenses, and Fees Due or Accrued.



## **VIII. CONCLUSION**

UHLIC's operations have changed considerably since the last examination. The company ceased writing direct business in mid-1994. It had remained inactive until January 1, 1997, when it began to assume individual whole life and group accidental death and dismemberment business from an affiliate, United Wisconsin Life Insurance Company. The company received a \$2.5 million capital and surplus contribution from its parent in 1997. This is the primary reason capital and surplus has increased 106% since the last examination, from \$3.3 million as of December 31, 1994, to \$6.9 million as of December 31, 1997.

This examination resulted in seven recommendations and two reclassifying entries. There were no adjustments to surplus.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - General Interrogatories — It is recommended that the company properly complete General Interrogatory 9 on all future annual statements to properly report the company's capitalization structure.
2. Page 20 - Investments — It is recommended that the company designate loaned securities with an "LS" per the annual statement instructions
3. Page 20 - Investments — It is recommended that the company take steps to ensure that proper records are maintained concerning its securities lending transactions, pursuant to the requirements of s. Ins 6.80, Wis. Adm. Code.
4. Page 21 - Schedule Y - Part 2 — It is recommended that the company complete a common Schedule Y - Part 2 for inclusion in each of the affiliated insurers' annual statements as required by the NAIC *Annual Statement Instructions*.
5. Page 21 - Schedule Y - Part 2 — It is also recommended that the company report in Schedule Y – Part 2 all transactions required to be reported by the NAIC *Annual Statement Instructions*.
6. Page 21 - Affiliated Balances — It is recommended that the company report the liability for commissions due on reinsurance assumed as Commissions and Expense Allowances Payable on Reinsurance Assumed.
7. Page 22 - Affiliated Balances — It is recommended that the company report the liability for premium taxes as Taxes, Licenses, and Fees Due or Accrued.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Cruz J. Flores	Senior Insurance Examiner, Data Processing Audit Specialist
Kristin Forsberg	Insurance Examiner
Denis Fuerstenberg	Insurance Examiner
Mary Hynes	Insurance Examiner
Bertram O. Oparaji	Insurance Examiner

Respectfully submitted,

Roger O. Pilecky  
Examiner-in-Charge  
Bureau of Financial Analysis and Examinations